

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Norfolk Division

ACTIVEVIDEO NETWORKS, INC.,)
)
Plaintiff,) CIVIL ACTION
)
V.) 2:10cv248
)
VERIZON COMMUNICATIONS, INC.,)
9 et al.,)
)
Defendants)

TRANSCRIPT OF PROCEEDINGS

Norfolk, Virginia

October 24, 2011

(Motion for Preliminary Injunction Hearing)

Before: THE HONORABLE RAYMOND A. JACKSON
United States District Judge

1 Appearances:

2 MORGAN, LEWIS & BOCKIUS, LLP

3 By: DANIEL JOHNSON, JR., ESQUIRE

4 MICHAEL J. LYONS, ESQUIRE

5 Counsel for the Plaintiff

6 and

7 KAUFMAN & CANOLES

8 By: STEPHEN E. NOONA, ESQUIRE

9 Local Counsel for the Plaintiff

10 SIMPSON THACHER & BARTLETT, LLP

11 By: HENRY B. GUTMAN, ESQUIRE, ESQUIRE

12 NOAH M. LEIBOWITZ, ESQUIRE

13 JOHN P. FRANTZ, ESQUIRE

14 and

15 VERIZON CORPORATE RESOURCES GROUP

16 By: JOHN THORNE, ESQUIRE

17 Counsel for the Defendants

18 and

19 HUNTON & WILLIAMS

20 By: GREGORY STILLMAN, ESQUIRE

21 Local Counsel for the Defendants

22 * * *

1 (Court convened at 10:05 a.m.)

2 THE DEPUTY CLERK: ActiveVideo, Inc. versus
3 Verizon, Inc., et al. Civil action, 2:10cv248.

4 Are plaintiff's counsel ready to proceed?

5 MR. JOHNSON: Yes, we are.

6 THE DEPUTY CLERK: Are defense counsel ready to
7 proceed?

8 MR. GUTMAN: We are.

9 THE COURT: Good morning.

10 Gentlemen, we are here on a couple of matters.
11 First, just some preliminary things I want to deal with.
12 I have ActiveVideo's motion, memorandum in support for
13 leave to file notice for supplemental authority in
14 support of the motion for a preliminary injunction, and
15 Verizon's response to the motion. The motion will be
16 granted. The Court will read and digest both parties'
17 reaction to the supplemental authority in the process of
18 considering what it will do about the injunction.

19 With respect to the motion to waive or, in the
20 alternative, a proof of supersedeas bond, to stay
21 execution of judgment pending appeal, the Court has read
22 the memoranda of the parties. I don't know that you have
23 a lot more to say about this matter, to be candid with
24 you. But if you do, you certainly can tell me, but I
25 think you have made your position pretty clear in your

1 pleadings, I'll be candid with you. If there's something
2 else you want to add, I will be glad to hear it.

3 MR. STILLMAN: Well, your Honor, as you know, if
4 you ask a lawyer whether or not he has something to add,
5 it's an irresistible invitation.

6 THE COURT: Well, that's all right. The Court
7 anticipated that.

8 MR. STILLMAN: May it please the Court. I'm
9 Greg Stillman, here on behalf of Verizon, and I would
10 like to address Verizon's motion with respect to the
11 bond, your Honor. And I don't have very much to add
12 that's not in our briefs, but I would like to say this:

13 First of all, as you know, this whole matter is
14 soundly within the Court's discretion. What does that
15 mean? That means that, obviously, the Court has to look
16 at some factors. This is not an automatic issue. If it
17 were an automatic issue, then the opportunity for us to
18 make this motion would not be available. So the Court
19 has to look at some factors. And with respect to those
20 factors, we think it is entirely appropriate to look at a
21 balancing of harm. There's been some suggestion in the
22 briefing that the Court should essentially do an
23 injunction-type analysis.

24 Well, if, in fact, the Court did that and if, in
25 fact, the Court engaged in any balancing-of-harm

1 analysis, I think that analysis would show quite clearly
2 that the Court should exercise its discretion and not
3 require a separate supersedeas undertaking by Verizon in
4 this case. And the reason for that is quite simple.
5 Verizon has demonstrated, I believe, to the Court's
6 satisfaction that it has significant resources available
7 to satisfy any judgment.

8 The real question, in our mind, is whether
9 ActiveVideo has the resources to pay the cost of this
10 bond if, in fact, the case is ultimately reversed,
11 because, as you know, that is a taxable cost to the
12 loser.

13 There's no question but that Verizon has the
14 ability to satisfy this judgment, and, in fact, the
15 evidence would suggest that Verizon is in a better
16 position financially with its cash balance than, perhaps,
17 most of the said surety companies who would undertake
18 such a bond.

19 So the real question is why are we doing this?
20 And the simple answer from our perspective is that this
21 is nothing more than an effort to be punitive with
22 respect to Verizon, an effort to somehow extract every
23 pound of flesh that can be extracted, and there's no
24 reason for it. It's a taxable cost that ultimately
25 ActiveVideo would have to bear if it's not successful in

1 the appeal of the case.

2 So for all of those reasons, it's our view that
3 the Court should exercise its discretion. It's not going
4 to harm ActiveVideo not to require this unnecessary
5 expenditure, which is going to be in the hundreds of
6 thousands of dollars, and so we would respectfully ask
7 that our motion be granted.

8 THE COURT: All right. Mr. Johnson.

9 MR. JOHNSON: Good morning, Your Honor.

10 There are two points. Number one, in the ITC
11 action when Verizon was litigating against Cablevision
12 and it thought it was going to get, effectively, an
13 exclusion order, it didn't claim at that point that a
14 bond was necessary. In fact, it argued that it was
15 entitled to a hundred percent bond because of its
16 irreparable injury suffered while Cablevision is
17 continuing to improperly utilize the '740 patent, which,
18 as we know, is invalid.

19 The reason the bond is proper in this case is,
20 in fact, Verizon has been found to be infringing. While
21 I am very confident they may be around in the two-year
22 period it's going to take to complete the process, I'm
23 sure there were people that thought AIG was going to be
24 around prior to the point in time in which it went under.

25 We are not here to have to take any risks, your

1 Honor. We don't want to take any risks. The reality is
2 a bond is appropriate. We know where the source of
3 revenue is going to come from. We don't have to chase
4 it. And the law is clear that it is the exception when a
5 bond is not required, and the only case cited involved a
6 public utility.

7 Nothing further.

8 THE COURT: Okay, gentlemen. The Court has
9 given considerable thought to the arguments of both
10 parties with respect to this question of whether a bond
11 should be required, and the argument that Verizon makes
12 that they should not be required to post a bond because
13 they are fully able to pay the bond and that it would be
14 a waste of time and a waste of resources to be paying
15 \$350,000 a year has a certain amount of appeal to the
16 Court.

17 On the other hand, the argument that ActiveVideo
18 makes about the posting of a bond also has, I think,
19 solid ground. What the Court has looked at, the Court
20 has looked at all of these issues. The Court notes that
21 both parties have different approaches to analyzing the
22 question of whether the bond should be required, and
23 certainly the issue of balance of harms was raised. The
24 Court did wonder about whether ActiveVideo wanted to take
25 the chance that if they should lose, they would be

1 subject to several hundred thousand dollars in taxable
2 costs to be paid, but the Court also understands at this
3 juncture that's not an issue that the Court should rely
4 on in trying to determine whether a bond should issue.
5 That's ActiveVideo's risk and their problem if they lose
6 and not obtain a bond.

7 The Court has read Rule 62(d) and the Court has
8 read a lot of the cases you have raised, and the Court
9 finds nothing in this circuit that carves out an
10 exception to the requirement that bond be posted for a
11 stay under these circumstances.

12 Now, in terms of costs, I do not believe that
13 the parties, and certainly Verizon has not, spared any
14 cost in litigating this case. I read the submission with
15 the affidavits of Ms. Small and Mr. Stillman and note
16 that certainly, in fact, if Verizon had \$6.1 billion of
17 cash on hand and a \$6.1 billion line of credit, then the
18 capability of paying a bond is no question; they can do
19 it and are fully capable of doing it. So that cuts
20 against Verizon's arguments about just wasted money.
21 Verizon hasn't spared any cost in litigating this case.
22 In fact, I think it's probably been a waste of money in
23 this case, from what the Court has observed, by both
24 parties.

25 The Court believes that when it balances all of

1 the considerations in this case that it will require that
2 a supersedeas bond be posted in this case. The Court
3 further believes that the \$115 million is inadequate.

4 The Court entered a supplemental order. I
5 understand that you went to Liberty Mutual and got the
6 bond before the Court issued that opinion in October for
7 supplemental damages, for prejudgment interest, which
8 really brings the total amount of the judgment the Court
9 has before it now up to 139 million. That doesn't even
10 include any taxable cost or potential post-judgment
11 interest.

12 So the Court believes that a \$115 million bond
13 is inadequate and so the Court is going to do what it
14 should do here, and that is the Court is going to grant a
15 stay to Verizon in this case, but pending appeal, the
16 Court is going to require you post the \$145 million
17 supersedeas bond, and that is probably on the low side.
18 The Court went and tried to just presumptively calculate
19 maybe the amount of time it might take for this appeal,
20 any taxable costs, that's probably low, but I think it's
21 reasonable. So the Court is going to require that
22 Verizon post a \$145 million supersedeas bond pending the
23 appeal in this case, and that's the order the Court will
24 enter in this case.

25 I thank you-all for your arguments, but it's

1 reasonable. I think it's well-grounded. It doesn't
2 matter that Verizon is capable of paying. If it's
3 capable of paying, it should be no problem. So that's
4 the Court's order. You will get a written order to that
5 effect, and I will leave it to you when you post the
6 bond. When you post the bond, then the stay in this case
7 will go into effect in accordance with Rule 62(d) pending
8 the appeal.

9 Is there anything else on this issue?

10 All right, fine. Let's move to the injunction.

11 On this injunction, now, once again, the Court
12 has read the memoranda of the parties, gone backwards and
13 forwards to see who has the stronger side of the argument
14 in this case, and at this juncture the Court, again,
15 takes the same position it took with the bond. The Court
16 is not going to be making any ruling on this injunction
17 from the bench. I'm not going to do that. I'm going to
18 hear your arguments to see if you have anything that's in
19 addition to what you have filed, and the Court will be
20 able to move pretty quickly. Probably before the end of
21 the week you will get an opinion back out of here on this
22 issue.

23 I have spent considerable time looking at it
24 already, but there are some things that the Court does
25 not know about your positions, and the Court suspects

1 that you have probably refined your position or
2 supplemented your position in this hearing this morning,
3 and the Court has some questions about some of the things
4 that you are suggesting that are not clear for the
5 record, and so the Court remains to be educated on this
6 question of an injunction.

7 It's not a quick call after the *eBay* decision
8 about what the Court should, in fact, do.

9 So, all right, Mr. Johnson.

10 MR. JOHNSON: Thank you, your Honor.

11 THE COURT: Be mindful of the fact that you have
12 already written substantially about this issue.

13 MR. JOHNSON: I am, your Honor, and I fully
14 intend to focus on certain specific issues.

15 THE COURT: All right.

16 MR. JOHNSON: We cited the *Bosch* decision to the
17 Court because it is the first, in my opinion,
18 pronouncement since *eBay* which we think properly
19 elucidates the requirements for the issuance of an
20 injunction and identifies factors for the Court to
21 consider.

22 The first point to be made is the question of
23 irreparable injury, then we have to address remedies, and
24 then, obviously, the balance of the hardship. That's the
25 test. But the *Bosch* court started off by saying, "One of

1 the critical issues in determining whether or not to
2 grant an injunctive relief is, is there competition by
3 the parties in the particular segment of this market?"
4 And *Bosch* went through and did an analysis of the market
5 segment.

6 In this case what Verizon says is, We don't
7 compete with ActiveVideo directly. That is simply not
8 true. ActiveVideo has its CloudTV technology. The
9 CloudTV technology, as Mr. Miller set out in his
10 declaration, and as an aside, there has been no rebuttal,
11 is that CloudTV provides VOD and interactive services
12 using the software and professional services to
13 customers. The customers then are able to provide the
14 VOD and interactive services to its clients.

15 Verizon provides VOD and interactive services to
16 its clients or its subscribers as well using software.
17 That software has been found to infringe. So when
18 Verizon tells the Court we are not direct competitors,
19 they are saying, well, these two are not -- ActiveVideo
20 is not a cable company. Well, it's true, but it doesn't
21 mean that there isn't direct competition, because without
22 the ActiveVideo software, neither Verizon or its
23 customers would be able to offer the VOD interactive
24 services.

25 In *Bosch* the Court identified one market, the

1 OEM market. In that situation, *Bosch* provided the blades
2 to a third party, *Pylon* did not. *Bosch* said, By using
3 our infringing technology, *Pylon* affects the amount of
4 money we can get, it affects the number of customers we
5 can secure, and finally, it erodes our business brand.
6 And the Court said that was sufficient to give rise to
7 injunctive relief.

8 What did Mr. Miller say in his declaration,
9 followed by the senior vice president of Cablevision?
10 One, we receive our money based upon supplying our
11 software to Cablevision, providing the professional
12 services to Cablevision, and then we get paid based upon
13 the number of streams, that is to say, the number of
14 subscribers that use the Cablevision service. So,
15 therefore, if subscribers are lost to Cablevision, it
16 necessarily follows that ActiveVideo's CloudTV technology
17 is rendered less valuable.

18 Now, how do we know that? We know that because
19 in the ITC Verizon made the identical argument. In it,
20 it said, quote, If Cablevision -- and this is page 32 of
21 39. In the situation where the argument was, Can you
22 calculate injury based upon potential loss to
23 subscribers? Here's what Verizon said. "If Cablevision
24 is able during the review period to continue importing
25 and infringing STB, set-top boxes, and provide them to

1 its customers, the competitive harm to Verizon will not
2 be limited to the difference between the monthly
3 equipment fee or service price charged by its company.
4 For example, Cablevision might acquire a new customer
5 during the review period and provide that customer with
6 fringing STB. Through this unfair act, Cablevision will
7 have deprived Verizon of the opportunity to serve that
8 customer for an indefinite amount of time, however long
9 the customer remains with Cablevision and receives its
10 services. The amount of that harm cannot be measured
11 before it occurs. Indeed, Cablevision admits that these
12 unique circumstances make it impossible to fashion an
13 appropriate bond."

14 That's what they said in the ITC. Here they
15 say, Oh, we could compensate ActiveVideo by money if
16 there was a reasonable royalty. That's totally
17 inconsistent with that position I have just read to you,
18 your Honor, and the reason is you don't know how many
19 subscribers you've lost; you don't know if you will ever
20 get them back.

21 And here's what we do know. Verizon's
22 technology it is using to deliver VOD and interactive
23 services has been found to infringe ActiveVideo's
24 technology and its patents. Because of that, we then
25 say, Well, what is the impact if your technology is and

1 has, in fact, been infringed? And what did Verizon say?

2 Quote, Here the ALJ found in Cablevision, which
3 competes against Verizon in the New York City
4 Metropolitan area, infringes Verizon's '740 patent by
5 incorporating Verizon's patent and technology.

6 Cablevision is, therefore, not only benefiting unfairly
7 from Verizon's investment and innovation as a general
8 matter, it is doing so to undermine Verizon in specific
9 markets where the two companies compete. The public
10 interest is best served by requiring companies to compete
11 on fair terms, not by allowing one company to use the
12 patented technology of its direct competitor without
13 authorization." That's what they said in the ITC.

14 They come here today and they are saying, Well,
15 just because this Court and a jury after a three-week
16 trial found that we infringed four patents, we ought to
17 be able to continue using the ActiveVideo technology
18 competing against Cablevision as well as the other ten
19 states in which we operate. That's diametrically opposed
20 to what they told the ITC. If the logic applied then, it
21 applies now.

22 It is fundamentally unfair, and the *Bosch* Court
23 made that point in saying injunctive relief is improper
24 under that circumstance. The interesting thing about the
25 *Bosch* case, *Bosch* is a huge company and it was conceded

1 that wiper blades was not a major part of *Bosch's*
2 business.

3 In our case, all our business is CloudTV. That
4 is our business. So by allowing Verizon to continue to
5 behave in the fashion it is doing without injunction, our
6 core business is being fundamentally affected, and it's
7 being fundamentally affected in several ways. As
8 Mr. Miller said and as Cablevision said, without using
9 ActiveVideo's technology, Verizon would have a difficult
10 time competing for subscribers, and it would have a
11 higher churn rate, that is to say, it would lose
12 customers. That is incalculable in two ways:

13 Number one, Verizon continues to maintain its
14 advantage; and, secondly, ActiveVideo does not receive
15 the benefits of the money it invested in this particular
16 technology.

17 Moving on, your Honor. On the question of
18 whether or not the granting of an injunction would
19 somehow unfairly harm Verizon, here's what Verizon had to
20 say in the ITC. "Because Cablevision customers can
21 readily obtain comparable STBs and television services
22 from other service providers, including Verizon, a
23 remedial order would have no negative effect on
24 consumers."

25 They went on to say -- and that is at page 22 of

1 28, your Honor. Then at page 19 of 39 Verizon says,
2 "Moreover, even if the Commission had authority to state
3 a remedy in this investigation, it should decline to do
4 so. A stay would cause irreparable harm to Verizon. The
5 ALJ has determined, and the Commission has confirmed,
6 that Cablevision violated Section 337. If the Commission
7 delays in remedying that violation, Cablevision will be
8 able to continue violating the statute and Verizon's
9 intellectual property and Verizon will have no recourse."

10 Stated another way, your Honor, the U.S.
11 Constitution and the statute gave my client the right to
12 exclude, and *Bosch* says that is a considerable factor
13 that must be considered in making a decision to grant or
14 deny injunctive relief.

15 In this case Verizon at every turn has made it
16 as expensive as possible for my client, has stated openly
17 and publicly that it's not going to pay a dime. It went
18 into the ITC and made the following statement concerning
19 this Court's determination about the invalidity of the
20 '748: "Cablevision has not offered any reason to import
21 conclusive preference to the District Court's decision,
22 which was reached without oral argument, without the
23 support of expert testimony, and without the full
24 evidentiary record." In other words, your decision,
25 according to the Verizon and the ITC, was not entitled to

1 any weight because Verizon had not been afforded due
2 process of law. That's what they told the ITC.

3 Now, we stand here today and I have just heard
4 the argument about Verizon being worth billions. My
5 client was ridiculed during the trial for having spent
6 \$300 million to keep their company afloat and not having
7 made a profit. Now Verizon says, Well, they should
8 continue going forward while we use their technology and
9 struggle in the marketplace. Injunction was designed to
10 protect the very situation you have here.

11 So what is Verizon's first argument? They argue
12 we are not directly competitors because Gary Lauder says
13 everything is for sale except his children. That,
14 besides being amusing, is irrelevant to the analysis.

15 They then say, Well, Mr. Wagner then said that
16 they were not competitors because he didn't do an
17 analysis on profit.

18 What we have here is Mr. Miller, who gave us a
19 declaration, and Mr. Miller is here today, in which he
20 said, Our technology, the cloud technology, is all we've
21 got and we are losing money, we are losing subscribers,
22 and he backed it up with the declaration from
23 Cablevision.

24 What do we have on the other side? Nothing
25 other than what can only be described as a whimsical

1 argument by Dr. Carlton who said if there had been a
2 reasonable royalty and we had decided to go with
3 ActiveVideo, we would have created additional competition
4 and that would have benefited ActiveVideo; and,
5 therefore, they are not injured.

6 Well, first of all, A, it didn't happen;

7 B, at this point, having spent the multiple
8 millions of dollars we spent to defend our technology and
9 having Dr. Carlton make it clear that he wasn't conceding
10 that there was a reasonable royalty rate, despite what
11 the jury did, we are supposedly going to be made whole in
12 the very way that Verizon told the ITC we could not be
13 made whole. How is that? By losing customers that we
14 might get a royalty for of some unspecified amount.

15 If it wasn't proper in the ITC when they thought
16 they had the upper hand, it is certainly not proper here.

17 Now, obviously, we have gone, as I said, in
18 great detail outlining the fact, but fundamentally, your
19 Honor, here's where this thing comes down to: We tried
20 this case. We got an injunction. They fought us every
21 step of the way.

22 THE COURT: A verdict, not an injunction.

23 MR. JOHNSON: We got a verdict. We need an
24 injunction, and we need an injunction because every day
25 they are in the market using our infringing technology,

1 and that's where we are now, they are using our
2 infringing technology to acquire subscribers who, as the
3 declaration from Cablevision makes clear, they would have
4 difficulty getting without our technology, and they are
5 able to compete unfairly.

6 Cablevision declaration, your Honor, paragraph
7 11. "Without our technology, Verizon would have more
8 difficulty attracting customers and their churn rate
9 would go up." So, in effect, what Verizon wants, they
10 didn't want to pay a bond. They don't want to address
11 the consequences of this jury's decision or face the
12 consequences of this jury's decision, which is if you
13 have got technology that you can use that doesn't
14 infringe, it's incumbent upon you to use it. If not,
15 what do you have to do? In this case you can still have
16 your cable system. You can still offer video. You just
17 can't offer Video On Demand with interactive services.

18 In our view, that is perfectly appropriate and
19 proper, and it's the only way we are ever going to get
20 Verizon's attention.

21 Thank you.

22 THE COURT: You made a reference to the fact
23 that you said that they are infringing with the use of
24 the technology --

25 MR. JOHNSON: Yes.

1 THE COURT: -- of the patent.

2 How many FiOS customers does Verizon have? I
3 heard something about 4 million at one time. Do you know
4 exactly how many?

5 MR. JOHNSON: To our knowledge before trial it
6 was 3.9. The latest number we heard was 4 million to 4.1
7 million. Here's what else we know, because we proved it
8 at trial, at the beginning of 2005 their strategy to
9 attract customers to their new venture, because, as you
10 know, it was built from the ground up, was the use of VOD
11 and interactive services as the distinguishing
12 characteristic over the other cable companies.

13 THE COURT: An argument, I believe, was made
14 that in the event the Court decided to issue an
15 injunction, a sunset provision should be considered and
16 Verizon could very well pay a certain amount per
17 subscriber. I'm trying to remember, I have read so much
18 in this case I'm getting dizzy, whether you reacted in
19 your briefs to that suggestion by Verizon. There's some
20 case law that talks about sunset provisions.

21 MR. JOHNSON: That's true, and we did not for
22 two reasons: Number one, Verizon's strategy is to delay
23 the inevitable for as long as it can, and so they will
24 say anything. And when I say anything, here's what I
25 mean: They talked about that sunset provision, but they

1 never told the Court this would be a royalty rate that we
2 would be prepared to accept. In fact, they never set a
3 royalty rate. That's even against the background.

4 My client's view is our right to exclude gives
5 us the right to determine if Verizon is going to be
6 permitted to use our technology or not.

7 THE COURT: But the Court has to look at all the
8 potential options.

9 MR. JOHNSON: Correct.

10 THE COURT: The Court doesn't know what it's
11 going to do. But let's assume, hypothetically, the Court
12 granted an injunction providing a sunset provision. I am
13 aware there's some testimony about Verizon working on
14 alternatives that might take six to nine months or
15 something of that nature.

16 MR. JOHNSON: Sure, correct.

17 THE COURT: Has ActiveVideo given any
18 consideration to any such subscriber, what type of rate
19 it would want per subscriber in the event the Court
20 ordered a sunset provision?

21 MR. JOHNSON: Two points, your Honor. The
22 answer is no, because there was never a statement by
23 Verizon as to what that rate would be.

24 But if you were speaking of the rate, you have
25 to look at the rate in the following context: Under the

1 jury's verdict, the rate per subscriber was one thirteen.

2 THE COURT: One hundred thirteen bucks.

3 MR. JOHNSON: A dollar thirteen per subscriber.

4 MR. GUTMAN: Per subscriber per month.

5 MR. JOHNSON: Per subscriber per month. Okay?

6 So that rate was -- and the jury found there was no
7 willful conduct.

8 All right. The rate we asked for was two twenty
9 five per subscriber per month. Obviously, the jury
10 divided it. However, we are in post-judgment world now,
11 so now Verizon's conduct is willful. Not only is it
12 willful, but we would be entitled to a post-judgment
13 royalty in an amount that reflects Verizon's ongoing
14 infringement.

15 The case law requires two things under those
16 circumstances: Either an agreement of the parties or a
17 separate hearing to determine what the reasonable royalty
18 rate should be.

19 If you were to ask me today what I thought the
20 reasonable royalty rate should be, and again, I said my
21 view is our right to exclude, which, by the way, gives us
22 huge advantage with our customers and potential customers
23 because not having Verizon as a competitor increases our
24 ability to improve our contractual relationship with the
25 cable company such as Comcast, who competes head to head

1 with Verizon. If Verizon can't offer VOD and interactive
2 services, we get a better deal with Comcast. That's
3 simply the reality.

4 So if the Court were to say either have a
5 hearing to argue about what a royalty reasonable is -- if
6 so, we will come back and we will do that, but I want to
7 do it ASAP if that has to happen -- or, B, what's your
8 number? It's not one thirteen. We are now willful. We
9 want two twenty-five per subscriber per month, and we
10 don't want to be in the situation where Verizon can
11 decide in six or nine months whether or not it has come
12 up with a noninfringing alternative. We want there to be
13 a minimum of a one-year period, from August 2nd to August
14 2nd, because I have no doubt, and I'm sure the Court has
15 no doubt, the minute they come out with their so-called
16 noninfringing alternative, you are going to see us right
17 back here saying the proof of the pudding is in the ink,
18 and we are likely going to have to have another hearing
19 because I don't think they can do it, despite the
20 assertions to the contrary.

21 THE COURT: Well, that's certainly
22 hypothetically. That wouldn't be the Court's concern,
23 because if the Court put in a sunset provision, then it
24 would simply mean an injunction would become effective on
25 the date the Court said it would become effective, and

1 that's what the Court means. It wouldn't be conditioned
2 on whether some alternative works or doesn't work.

3 That's not an issue the Court would be concerned about.

4 MR. JOHNSON: Right.

5 THE COURT: The Court would be concerned about
6 if the Court enters an injunction, the injunction is
7 effective when the Court says it's effective.

8 MR. JOHNSON: Understood. Understood, your
9 Honor. I stand corrected.

10 THE COURT: So that's one thing.

11 All right. Anything else you want to add?

12 MR. JOHNSON: Not at this point. I would like
13 to reserve some time for rebuttal.

14 THE COURT: All right. I have a feeling we are
15 going to be doing a seesaw here.

16 MR. JOHNSON: It wouldn't be the first time.

17 THE COURT: What can you do to inform the Court
18 on these issues, Mr. Gutman?

19 MR. GUTMAN: I would be happy to, your Honor.
20 Good morning, Hank Gutman.

21 THE COURT: Good morning.

22 MR. GUTMAN: Hank Gutman for Verizon.

23 Let me start with a couple of points that
24 Mr. Johnson put a lot of emphasis on. He spoke a lot
25 about the right to exclude, and I would just remind the

1 Court, and I know the Court spent a lot of time with
2 these decisions and probably doesn't need the reminder,
3 but the right to exclude is both Justice Thomas's
4 decision for the Court in *eBay* and Justice Kennedy's
5 decision for a concurring opinion for four justices that
6 *eBay* is the right. It says nothing about the remedy. It
7 doesn't mean that an injunction is automatic. The whole
8 point of the *eBay* decision was that an injunction is no
9 longer automatic, it's not presumed.

10 As the *Bosch* decision makes clear, it's not even
11 rebuttably presumed, and the right to exclude exists in
12 every patent case.

13 So if that is entitled to the kind of weight
14 that my friend, Mr. Johnson, has been arguing, then there
15 would be an injunction in every case, and we all know now
16 in the post-*eBay* world that is not even close to being
17 true.

18 They have to prove a number of things, four
19 factors. The key ones here are irreparable injury and
20 that damages are not an adequate remedy of law, and they
21 can't do that. Since *eBay* no commercial entity, none,
22 not one, has gotten an injunction unless it was against a
23 direct competitor.

24 And let me put an even finer point on it. You
25 know, we get into the direct versus indirect and all of

1 that stuff. We don't have to get that fancy. There has
2 not been a single injunction post-eBay granted against a
3 customer or potential customer.

4 THE COURT: Now, does that mean that one is not
5 warranted or that no judge exercised its decision to
6 grant one?

7 MR. GUTMAN: It means none is warranted, your
8 Honor, because there's no irreparable injury in that
9 situation. That's the basic point. When you are dealing
10 between -- not between competitors. I mean, the *BroadCom*
11 and *QualComm* case cited in the papers, those were direct
12 competitors. The *Bosch* and *Pylon* those were direct
13 competitors. Judge O'Malley's decision from the Federal
14 Circuit could not have been more clear on that point.

15 I am going to spend a little time on *Bosch*, and
16 we are going to walk through each of the distinctions at
17 a level Mr. Johnson didn't.

18 THE COURT: Let me ask you this right now as you
19 get started: Are there any cases out there that deal
20 with the factual situation that this Court is confronted
21 with here where you have indirect competitors? You know,
22 there's a first time for everything.

23 MR. GUTMAN: Well, what they are calling an
24 indirect competitor, your Honor, is a supplier-customer
25 relationship. And, yes, I think z4 was one of those

1 decisions. There are a whole bunch cited in our briefs
2 where courts denied injunctions in those decisions
3 because there is an adequate remedy at law, namely
4 damages.

5 If we cut through all the terminology and just
6 think about it for a minute, it makes sense that that
7 would be true because the customer or potential customer
8 is something the patent holder would have been very happy
9 to make a deal with to provide them. And if you make the
10 deal, what do you get? You get money.

11 The reason why a direct competitor is different
12 is if you have got a patent that's significant, you might
13 not be willing to license that patent to your direct
14 competitor and give up your competitive advantage for any
15 amount of money. That's the difference. That's the
16 difference. That's why no court has found, and I think
17 there's a reason for that, that there is that kind of a
18 irreparable injury when it's supplier and customer, and
19 that is clearly undeniably what the relationship is
20 here. Every single witness of theirs at trial in this
21 case, at deposition in this case, and the testimony that
22 was read and played to the jury described the
23 relationship that way.

24 Let me just take Mr. Wagner. I have got his
25 page handy. "Is it your opinion that ActiveVideo would

1 not lose sales by licensing to Verizon?" That's exactly
2 the question.

3 "I have not calculated any lost profits here, so
4 that's correct."

5 And if you look at his expert report where one
6 of the Georgia Pacific factors asks about that, he said,
7 "That factor is neutral because there's no evidence that
8 they would lose any sales."

9 It goes on: "ActiveVideo doesn't participate in
10 the marketing and selling of video services as does
11 Verizon?"

12 "That's correct."

13 "Verizon is not in the business of selling VOD
14 hardware and software to other providers of video
15 services?"

16 "They are not."

17 "It is, therefore, your opinion that ActiveVideo
18 and Verizon are not competitors?"

19 "That's accurate."

20 This is the opinion their expert stated on the
21 witness stand under oath in this case subject to
22 cross-examination and direct examination. He didn't say,
23 oh, but they are an indirect competitor; they are just
24 not a direct competitor. All the explanations and
25 excuses and all of the wiggling that we see in the

1 injunction papers, none of that was there when the man
2 was on the stand.

3 And your Honor will see in our papers that we
4 have got a list of all of their witnesses. Villalpando,
5 O'Callaghan, Mr. Miller himself, all of them testified
6 that we were a customer, or potential customer, or, gee,
7 we wish we could have them as a customer. Nobody
8 described has as a competitor, either direct or indirect.

9 THE COURT: Forget the direct and indirect for a
10 second. The jury found that Verizon's patent infringes.
11 So, in effect, you are arguing that your infringement has
12 no impact on ActiveVideo?

13 MR. GUTMAN: What I'm arguing is there's no
14 irreparable injury because we are not a direct
15 competitor. We are not a competitor of any sort. It's
16 not that there's no impact, your Honor, there is, but
17 it's one that's measurable by damages, as the jury did
18 and as your Honor subsequently did.

19 But in terms of whether our impact of our
20 presence in the market helps them or hurts them, their
21 own Mr. Taylor testified, and again, remember him, your
22 Honor, he was the sales guy or marketing guy, and this
23 was in some of his deposition testimony, he compared
24 himself to an arms merchant. He said if Verizon is in
25 the market with their product which has nice features

1 that customers want, that makes it easier for him to sell
2 to Verizon's competitors because they need to arm up
3 with, you know, their CloudTV and the menuing system, and
4 things like that, that ActiveVideo sells in order to
5 compete with Verizon. So what he testified to under oath
6 was that far from hurting their sales, we helped them.

7 So the notion that we are irreparably injuring
8 them is just not true.

9 And then the further point on that is they
10 gladly would have licensed us at any point, even apart
11 from Gary Lauder's statement about how for the right
12 price they would have licensed, they would have sold us
13 the patents.

14 THE COURT: Case law cuts against you on that
15 argument, the fact that they might have been willing to
16 license you at some point.

17 MR. GUTMAN: What the case law says is that
18 issue is not outcome determinative, and we are not
19 arguing that that issue, standing alone, is outcome
20 determinative. But it's the natural state of things when
21 you have got a supplier and customer, it cuts against an
22 injunction. It doesn't alone mean there can't be an
23 injunction, but it certainly weighs on our side of the
24 equation. Case law doesn't quarrel with that, your
25 Honor.

1 But the law is clear, and again, if there was a
2 case that said supplier-customer, irreparable injury, I'm
3 sure we would have seen it, but they don't cite one and
4 we haven't found one.

5 THE COURT: So, in other words, if the Court
6 sees fit to issue an injunction on this scenario, it
7 would be whole new ground?

8 MR. GUTMAN: Your Honor would be making new law.

9 THE COURT: It would be Daniel Boone and the
10 law, you would be cutting new territory.

11 MR. GUTMAN: It would absolutely be new law,
12 your Honor. It would be an unprecedented decision, which
13 is one reason why we would urge your Honor, as a court of
14 equity, which at this point you are sitting in inequity,
15 we would urge your Honor to not be too quick to decide to
16 do that. There's a good reason other courts haven't done
17 it, and that's because in the supplier-customer situation
18 the injury is not irreparable.

19 And all of the stuff Mr. Johnson was quoting
20 from the ITC, all the statements there, that was a case
21 between Cablevision and Verizon. They are direct
22 competitors. They are direct competitors, absolutely.
23 Verizon competes with other cable companies. It doesn't
24 compete with ActiveVideo.

25 They don't compete with us; we don't compete

1 with them. Every witness in this case said that. Nobody
2 said, Oh, yeah, we don't compete directly, but we compete
3 indirectly. Not a single witness said that until we got
4 to the affidavit for this injunction proceeding.

5 THE COURT: Now, if the evidence was that
6 Verizon's infringement of the patent deteriorated or
7 diminished the value of the patent to ActiveVideo, it
8 devalued it, it diminished it, wouldn't that be different
9 and significant, notwithstanding the fact that it's not a
10 customer, is not a supplier-customer relationship?

11 MR. GUTMAN: Right.

12 THE COURT: That's an "if."

13 MR. GUTMAN: Right, and two things. I
14 appreciate that your Honor said "if," and I appreciate
15 that particularly because there's zero evidence in this
16 record that the value of the patent has been diminished.

17 Indeed, I would suggest to the Court, and I
18 think it's just a matter of common sense as we stand now
19 based on the jury verdict, and the rather sizable award
20 of damages, and the supplementation of those damages, and
21 the subsequent decision by the Court, I would say that
22 patent is sitting pretty pretty in terms of its value.
23 There's been no diminution of the value, and if Verizon
24 were permitted to continue with its business, subject to
25 having to pay sizable royalties along the lines of what's

1 been established by the jury and implemented by your
2 Honor in the supplemental award, that would certainly
3 make those patents more valuable to them than they have
4 ever been before.

5 But the further point, your Honor -- so there's
6 no record that the value has been diminished and, if
7 anything, it's been enhanced by the jury verdict. But if
8 there are damage awards that could compensate for that
9 injury, then you don't have an injunction.

10 THE COURT: Okay. That has always been the case
11 as far back as the Court can remember. If there's a
12 valuable economic remedy, there's really no grounds for
13 an injunction. But the thing that the Court is wondering
14 about even in the aftermath of eBay where there's no
15 automatic presumption that you get an injunction where an
16 infringement is established, what's the point almost of
17 even winning an infringement case in a patent case if the
18 remedy is always going to be that you simply pay if you
19 get caught? What's the point? Why not infringe? Just
20 pay if you get caught.

21 MR. GUTMAN: Well, I mean, that's a very good
22 question, your Honor, and let me respond to that. First
23 of all, if you infringe willfully --

24 THE COURT: It's still just more money. That's
25 all, it's just more money.

1 MR. GUTMAN: Oh, I understand, but that's a lot
2 more money. And, again, we all recall the jury here.
3 Mr. Johnson talks about us behaving poorly. The jury
4 here found against him on willfulness. So, you know,
5 what the jury verdict shows is we bought products from
6 third parties, SeaChange and Cisco, that we implemented
7 in our system and the jury has now concluded, subject to
8 whatever the Court of Appeals may say, that that
9 infringes. So, you know, we are where we are on that.
10 But if you go out and you intentionally, knowingly
11 infringe somebody's patents, then you are liable for
12 willfulness and that is a penalty beyond the economic
13 injury and that should be -- I think the law is designed
14 to make that a deterrent.

15 But, again, the point of the injunction, and
16 this is another point that gets lost in their papers, but
17 I think it's clear, crystal clear, in the case law and we
18 cites the cases on this, the point of an injunction is
19 not to punish. It's not to punish. And if you listen to
20 ActiveVideo's argument, your Honor, it's all about
21 punishing us. It's making us pay for our --

22 THE COURT: Let me assure you, Mr. Gutman, no
23 matter what this Court does, that's not and never been
24 the intent of any injunction this judge has ever issued.

25 MR. GUTMAN: I appreciate that, your Honor.

1 THE COURT: Punishment, that's not an issue.

2 MR. GUTMAN: I appreciate that, your Honor. So
3 the issue of whether the infringement was culpable some
4 way rather than just innocent, because patent
5 infringement can be innocent -- you can infringe a patent
6 without even knowing it's there. We did it, at least in
7 the eyes of the jury. -- obviously, we reserve our right
8 to challenge them. I don't want to be waiving anything
9 here. But that culpability thing has a standard or
10 issue, and it has nothing to do with whether or not an
11 injunction gets issued. And the clearest indication of
12 that is if you look back at eBay, which was what gave
13 rise to this in the Supreme Court and then came back, and
14 Judge Friedman on remand again denied the injunction.
15 The jury found willfulness in eBay; that is, the jury
16 found in that case meeting the high standard for
17 willfulness, post-Seagate.

18 THE COURT: So then willfulness had nothing to
19 do with whether an injunction should issue or not.

20 MR. GUTMAN: Exactly right.

21 THE COURT: So the Court understands that.
22 Culpability has nothing to do with that.

23 MR. GUTMAN: Right.

24 THE WITNESS: It's the balancing of these four
25 factors that the Court has been and still must wrestle

1 with.

2 MR. GUTMAN: Exactly, your Honor.

3 So moving to the second, we have talked about
4 irreparable injury and the fact no court has found
5 irreparable injury in a situation like this.

6 The second point is, well, are damages an
7 adequate remedy? And I would suggest to your Honor that
8 based on the size of the verdict in this case, damages --
9 and relative to, again, I'm not trying to pick on them
10 for their failures in business in the marketplace, but
11 your Honor will recall the testimony. The cumulative
12 total over 30 years of revenues they generated from their
13 business was \$15 million.

14 THE COURT: This sounds like an argument this is
15 big change for a small fee company is what you are
16 arguing now.

17 MR. GUTMAN: What I'm arguing, your Honor, is
18 that looking at it in gross, looking at it in gross, it
19 is \$100 million more than they ever made in 30 years of
20 business, which suggests that the damages are an adequate
21 remedy.

22 If you view it in terms of what they get per
23 subscriber, which is another measurement, under their
24 Cablevision view where they are arguing that if we aren't
25 enjoined, they are going to lose supplemental subscribers

1 in Cablevision, they get 17 cents per subscriber under
2 the Cablevision deal.

3 Under the royalty in the jury verdict as applied
4 by your Honor in the supplemental damages award, as
5 Mr. Johnson said, they get one thirteen per subscriber.
6 So not only is it measurable, but it works in their
7 favor.

8 So, again, I don't think on this record there's
9 any showing that damages are not an adequate remedy. We
10 think more than adequate, we think excessive, but again,
11 the parties disagree with that and the Court has accepted
12 the jury's verdict as appropriate.

13 But that's relative to what they have done in
14 the real world. Relative to what they are saying they
15 might get less of if we aren't enjoined, 17 cents per
16 incremental customer, and that's just in New York. You
17 know, Cablevision is just in the New York area. They are
18 looking for an injunction against us all across the
19 country. We are paying royalties all across -- you know,
20 the jury verdict and supplemental judgment address
21 royalties on a nationwide basis, all 4 million
22 subscribers, not just the ones in New York.

23 So, again, the economics do not suggest that
24 they are somehow hurt in some noneconomic way, or
25 immeasurable way, or damages-can't-make-them-whole way by

1 us being allowed to continue.

2 Now let me talk about *Bosch* for a minute. In
3 *Bosch* the Federal Circuit reversed the district court for
4 having denied an injunction based on two arguments that
5 we never made in this case. So they aren't relevant to
6 the arguments we have made against the injunction here.

7 THE COURT: They are or are not?

8 MR. GUTMAN: Are not. The two arguments the
9 district court in Delaware found sufficient to deny an
10 injunction are not arguments we have made here. The
11 first is the argument that, well, you only have
12 irreparable injury. And, again, this was a case against
13 direct competitors, unlike our case. You can only have
14 irreparable injury if it's a two-player market where you
15 can say with certainty that every sale one loses, the
16 other gains. The district court in Delaware found that
17 out from determining that -- in fact, I think there are a
18 line of cases in Delaware where the district judges have
19 found that as a basis for denying the injunction even
20 between direct competitors. The Federal Circuit said no,
21 that's not outcome determinative.

22 And the second was the argument that it wasn't
23 their main product, that they have other core product,
24 that they had other products, that windshield wipers
25 weren't the whole deal. Again, the Court of Appeals said

1 that doesn't mean you don't get an injunction. It
2 doesn't mean you do, but it doesn't mean you don't.

3 So the Court reversed on two grounds, and
4 neither of those arguments were ever made by us here,
5 ever, and our briefing was all done before *Bosch*. That's
6 just not our basis.

7 So what the Court did, though, was it decided in
8 that case, in *Bosch*, that an injunction should be granted
9 based on three factors, not one of which is present in
10 this case.

11 First, they found that in all three channels of
12 distribution it was undisputed, that each of these, Judge
13 O'Malley's opinion said undistributed fact or
14 un rebutted. In each of the three distribution channels
15 which were defined and described, the companies were
16 direct competitors. We are not direct competitors here
17 in any distribution channel. We are a customer. They
18 are a supplier.

19 Two, the Court found concrete evidence of a loss
20 of market share and a loss of sales and access to
21 customers. There's none here. There's no evidence of
22 that. There's no proof of that. They can't point to a
23 single sale. Again, the evidence is that what we do
24 helps them sell to Cablevision, and ComCast, and others
25 so they can effectively compete with us better, but they

1 haven't shown a single customer they have lost based on
2 that, unlike, I think it was Wal-Mart was the biggest
3 customer in the *Bosch* case, direct proof of a loss of a
4 customer. And since we don't compete for those
5 customers, they have lost nothing to us. There's no
6 evidence of that.

7 And then the third point, which in *Bosch* may
8 have been, if you look at the transcript of the oral
9 argument or the tape of the oral argument, may have been
10 the most important factor. It certainly was a major
11 factor in the decision. *Bosch* or *Pylon*, the defendant in
12 *Bosch* had real serious questions about whether they could
13 satisfy the judgment, and you can't say that damages are
14 an adequate remedy and there's no need for an injunction
15 if the defendant can't satisfy the judgment.

16 And they were quite mushy. They were asked, Can
17 you satisfy the judgment? Are you good for it? The
18 answer was, mma, mma, mma. This is exactly the opposite
19 situation. As your Honor has observed, Verizon does have
20 the resources. So whatever we owe, assuming we don't
21 prevail on appeal, whatever we end up owing them for the
22 period of time in which we are still, by their theory,
23 continuing to infringe, we have the resources to satisfy
24 the judgment for that.

25 And with respect to those damages, at this point

1 your Honor has ordered that we enter a bond. So they
2 have the belt and the suspenders in terms of that. So in
3 the *Bosch* case the injunction was ordered because each of
4 these three factors was there as a matter of undisputed
5 fact, and in our case it's undisputed that none of those
6 factors are here.

7 Now, there are other problems with the issuance
8 of an injunction that I just raised to make sure that
9 your Honor has them in mind as you contemplate the
10 decision here.

11 First, an injunction under the federal rules has
12 to be specific in scope and definition, which makes
13 sense. If you are going to be ordered by Court on pain
14 of intent to do or refrain from doing something, it can't
15 just be stop infringing the patent. You know, it needs
16 to be --

17 THE COURT: What was nonspecific about the
18 language? The Court didn't understand that argument by
19 Verizon. What's nonspecific about the language that
20 ActiveVideo has raised in the brief regarding the two
21 patents? The Court didn't understand what was
22 nonspecific about that.

23 MR. GUTMAN: Sure. Well, first of all, your
24 Honor, it was only raised in their reply brief. There's
25 no formal order or anything like that. It was only --

1 THE COURT: You say raised in their brief. The
2 question still is what's nonspecific about it?

3 MR. GUTMAN: Sure. There are several problems.
4 The first is that it includes the word "including," and
5 there are a long line of cases -- I don't recall whether
6 they were in our original briefing, but I would be happy
7 to submit something supplemental pointing them out to
8 your Court -- where injunctions were bounced for having
9 included the word "including" because that suggests that
10 other things might be precluded.

11 Second, based on the jury verdict, there is no
12 clear finding as to which of our products infringed.
13 They accuse two separate products: The product that we
14 got from SeaChange and the product that we now use from
15 Cisco.

16 The product from SeaChange we no longer use, so
17 that wouldn't be the proper subject of an injunction, you
18 know, under any circumstances. But based on the way the
19 issue was presented to the jury, your Honor, where there
20 was no distinction between the old system of SeaChange
21 and the new system of Cisco, it's not clear from the
22 verdict whether they thought both systems infringed; they
23 thought one system infringed, but not the other. That's
24 ambiguity and a problem.

25 The systems, obviously, had many similarities,

1 but they were not identical for infringement purposes,
2 and they were treated separately by the experts and they
3 were dealt with separately in the testimony and the
4 expert reports. So the notion that they, based on this
5 verdict, are entitled to injunction under the current
6 system, the Cisco system has that additional problem.

7 And then the further problem is, your Honor,
8 that they don't claim -- well, maybe they claim for the
9 purposes of injunction, but this was an issue at trial.
10 What do they think the scope of the patents is? Is it
11 all Video On Demand, or is it just Video On Demand done a
12 certain way?

13 In this case, again, we use products that we buy
14 from third parties that supply everybody else in the
15 industry. So is it anything that those companies do in
16 those products that infringes, or is it something less
17 than that? And we think were there to be an injunction,
18 and I hope we have made clear we don't think there's any
19 basis under the law or in equity for an injunction --

20 THE COURT: Listening to your argument, then a
21 Judge wouldn't be able to even address the question of an
22 injunction in this case, even though the jury says
23 there's an infringement, because you say you have to
24 relitigate what infringes.

25 MR. GUTMAN: Well, your Honor, the issue, if

1 there's a single product and that single product is found
2 to infringe, and the injunction is drawn to that single
3 product, then there's not a problem. But here there are
4 two products.

5 THE COURT: How about any and all products?

6 MR. GUTMAN: I'm sorry?

7 THE COURT: Never mind.

8 MR. GUTMAN: That, we would suggest, would be
9 inappropriate, but I know your Honor wasn't suggesting
10 that.

11 And, again, if we go back to the whole what is
12 it that they do that they say somehow gets affected by
13 this, they don't do Video On Demand. They provide things
14 that are part of the Video On Demand system, but they
15 don't do the basic Video On Demand. But they provide
16 Cablevision. That's not Video On Demand. They get that
17 from SeaChange. So that's the scope issue, your Honor.
18 And I don't mean to belabor it because I don't think your
19 Honor needs to get there, but it is another issue for the
20 Court.

21 THE COURT: Well, if there's an issue if the
22 Court gets there, now is the time to talk about it. The
23 Court would hate to get there and then come back and
24 find, okay, now, what are we going to do about scope, or
25 about this problem, or that problem?

1 MR. GUTMAN: Well, in the cases where this
2 arises, your Honor, there is often a second step to the
3 process where the parties confer and then, if necessary,
4 come back to see the Court on the scope of an
5 injunction. So were we to get there, and, again, I don't
6 believe under the law we should, my suggestion would be
7 there be a second step in that process.

8 And, again, just as we have all that testimony
9 from their witnesses that they don't compete with us, the
10 same witnesses gave the same testimony that they don't
11 compete with SeaChange.

12 And, again, your Honor may recall a lot of this
13 from the trial. They didn't submit an RFP response on
14 Video On Demand. SeaChange did. Both they and SeaChange
15 don't think of themselves as competitors. That's what
16 the testimony said. They and Cisco -- the Cisco
17 gentleman that was on the stand, Mr. Hughes, was asked do
18 you compete with ActiveVideo? He said no. ActiveVideo
19 witnesses were asked, Do you compete with Cisco? No.
20 So, again, it puts this whole they-aren't-competitors
21 point into sharper focus.

22 So those are the points that I think would make
23 the entry of an injunction, if one were appropriate --
24 and it isn't here -- problematic on this record and under
25 these circumstances.

1 You know, again, Mr. Miller testified at trial
2 to the fact that Cablevision uses SeaChange to provide
3 Video On Demand, not them. He testified that at pages
4 374 to 375 of the transcript. So that would be a
5 problem.

6 But let me just talk briefly about the balancing
7 of equities and the public interest. Even if there were
8 an irreparable injury, even if damages weren't an
9 adequate remedy of the law, and neither of those is the
10 case here, they waited five years before they filed this
11 lawsuit, and they did that with full knowledge of how
12 SeaChange worked and that we were using SeaChange.

13 THE COURT: The Court has dealt with that,
14 Mr. Gutman, and the Court doesn't put a lot of stock in
15 that. You have to give me a better argument than that,
16 that they waited five years. The Court understands the
17 chronology of events here in this case, so the Court
18 doesn't find that argument to be too persuasive.

19 MR. GUTMAN: All I would say, and I know that
20 your Honor rejected that as a latches argument, all I
21 would point out is that the case law on the entry of
22 injunctions in these kinds of circumstances, and again, I
23 know your Honor has looked at them and I know your Honor
24 is going to be spending more time with them before
25 deciding, but a number of those decisions talk about

1 factors for not granting an injunction being the fact
2 that with full knowledge of the infringement, and
3 defendant's 543 in evidence shows they knew exactly what
4 we were doing and how we were doing it before we even
5 launched the product, that that's a factor that cuts
6 against issuing an injunction.

7 Even if it doesn't put you out of court in
8 latches, it does come back into play for an injunction.

9 The failure to move for a preliminary
10 injunction, again, you will see in the decisions language
11 to the effect that, well, if this was such an irreparable
12 injury, you would have done something sooner. You would
13 have filed litigation sooner. You would have done
14 something once it was filed.

15 The two patents that are left in this case, and
16 again, this is another equitable consideration, one of
17 them expires, I think, in 2013. The other lasts longer,
18 but they didn't accuse Video On Demand on that patent,
19 the '582. They just accused Widgets and various things
20 that we used with Video On Demand. That's another factor
21 that would go into the issue of whether or not on this
22 record as a matter of equity, balancing the equities,
23 which your Honor would be required to do, an injunction
24 is appropriate.

25 Another factor, you know, again, in the meantime

1 we would be running up a bill for damages for royalties.
2 I think it works out to the rate of about \$4 million a
3 month. That's a lot of money. If we are wrong and the
4 Court of Appeals doesn't rule for us, that's a lot of
5 money, your Honor, and they would be getting that money,
6 and that exceeds any harm they would be suffering, and it
7 is measurable.

8 Another point to consider in weighing the
9 equities on an injunction is that they seek this
10 injunction to protect their ability to continue to market
11 the very products which the very same jury found
12 infringed our patents. All of their argument is about
13 the stuff they are selling to Cablevision and their
14 ability to keep providing stuff to Cablevision.

15 Well, your Honor may recall, it was a very short
16 part of the trial at the end because the dollars involved
17 aren't that large, but they were found to have induced
18 Cablevision to infringe our patents with those very
19 products. So, again, as a court of equity, if they are
20 saying, gee, you may hurt our sales, I mean, apart from
21 the fact they get royalties and damages for that if it's
22 true, the sales they are talking about are the sales
23 which infringed our patents. That's the very same thing
24 the jury found. There's certainly no equity in doing
25 that.

1 And the final point, and I'm sorry to have to
2 raise this, but I do think it's a factor that the Court
3 needs to take into account. The eBay court talked about
4 one of the problems with granting injunctions in these
5 cases being the ability of the threat of the injunction,
6 the threat of the ability to disrupt somebody's business
7 on that kind of level as creating a disproportionate
8 amount of leverage for use in settlement negotiations.
9 And I do believe, your Honor, that that is what's going
10 on here.

11 We know. The jury didn't know, because they
12 sought and got an in limine motion preventing this from
13 coming before the jury, that they filed this case to
14 retaliate for Verizon suing Cablevision in the ITC, and
15 you have heard an awful lot about the ITC today. So
16 what's the interest in an injunction here that would
17 generate less money? If what they say about its economic
18 impact is right, then we will be continuing royalties if
19 it turns out we are wrong about infringing? I would
20 suggest to your Honor that this is for leverage in the
21 negotiation of a resolution of a case that is not before
22 this Court.

23 There's no equity in that, and that's another
24 reason why an injunction would be inappropriate under
25 the circumstances. And I'm sorry to have to raise it,

1 your Honor, but --

2 THE COURT: No, that's fine. The Court has
3 heard this whole issue about what's going on in the ITC
4 between the parties before. I think both parties have
5 some motives that are not clear to the Court for what
6 they are doing because of what's in the ITC, both
7 parties.

8 Now, the other thing is this, though: To the
9 extent, let's say, Verizon manages to put, let's say,
10 Cablevision out of business, whether it's in the ITC or
11 another place, if what you are saying about their simply
12 being a big supplier to Cablevision, then you end up
13 cutting off their revenue stream in a sense, wouldn't
14 you? If you put Cablevision out of business, then to a
15 certain extent, certainly indirectly it affects it,
16 ActiveVideo's revenue stream would be substantially
17 reduced or cut off, depending upon what happens to
18 Cablevision, right?

19 MR. GUTMAN: Well, let's take this in pieces,
20 your Honor. If Verizon were to prevail and before the
21 Administrator -- I'm not counsel in the ITC matter, so
22 I'm hoping in giving this response --

23 THE COURT: I understand that.

24 MR. GUTMAN: In the Cablevision action, the ITC
25 ruled that three of the patents were infringed by

1 Cablevision. One of them met the other qualifications
2 for granting a preclusion order. There aren't damages in
3 the ITC, so a preclusion order is the remedy that's
4 available. And the status of that one is not terrific
5 for Verizon at this point. So at this point there is no
6 preclusion order. But assume that Verizon were able to
7 turn all of that around and get a preclusion order
8 against Cablevision and that that somehow hurt their
9 sales, ActiveVideo's sales to Cablevision, it would only
10 be because what Cablevision was doing with them or
11 without them was infringing Verizon's patents, which
12 violated the law, and the ITC decided that a remedy was
13 appropriate.

14 But that's not patent infringement by us. That
15 would be my client enforcing their patent rights in a
16 separate forum. So that might hurt their sales to
17 Cablevision, but in the meantime -- but that has nothing
18 to do with the injunction in this case, or the lack of
19 need for an injunction, because in this case at the very
20 same time if we were continuing to do what has been
21 adjudicated to infringe and if that weren't reversed on
22 appeal or we hadn't done something to change in the
23 meantime rather than keep running up the potential
24 liability of \$4 million a month, we would still owe
25 them. So they would still recover.

1 If anything, that's an argument against the
2 injunction because if we are enjoined and that tab for
3 ongoing royalty stops running and Cablevision ends up
4 being enjoined, then they are not doing business with
5 anybody and there's no one they can turn to for money on
6 that because both would be the result of actions by a
7 court. So, if anything, that ends up being an argument
8 against the injunction because absent the injunction,
9 assuming that our conduct continues as it does, so does
10 the potential that if we are wrong and if we lose, we owe
11 them more money, which they wouldn't have under the other
12 scenario.

13 THE COURT: It seems like it's a scenario where
14 the parties in this case probably should have gotten
15 together and resolved this matter sooner, to be candid
16 with you. I mean, you are suing each other. You are
17 litigating against Cablevision, and they are litigating
18 against you, and all the parties would have probably been
19 better off had you figured out a way to resolve this
20 matter short of all the money you are putting into
21 litigation in this case. That's exactly what's clear to
22 the Court.

23 MR. GUTMAN: You will get no disagreement from
24 us, your Honor, that if a settlement were doable, that
25 would be sensible and appropriate.

1 THE COURT: You are talking about money and
2 maybe it was doable. You-all should have worked the
3 figures in the case, but now the Court has to work the
4 figures.

5 MR. GUTMAN: Right. And your Honor has dealt
6 with the figures for the interim period.

7 I guess two points before I sit down.

8 THE COURT: Yes. I want you to talk about the
9 same thing I asked Mr. Johnson about having to do with
10 the sunset provisions and these royalties.

11 Once again, after listening to you-all, the
12 Court doesn't know where it's necessarily going to end up
13 here, but wherever it is, it hopes it has some
14 information so that it can deal with all of the issues.

15 MR. GUTMAN: Right. And were the Court to enter
16 an injunction, which, again, we believe the Court should
17 not, it would certainly be appropriate to have a sunset
18 provision, providing that the injunction did not take
19 effect until some period of time that allowed us to make
20 alternative arrangements.

21 Again, looking at the case law, your Honor, you
22 know, virtually all of these cases where there is an
23 injunction provides for that. In the *BroadCom* versus
24 *QualComm* case which they cite in their brief, and I think
25 we cite too, the district court gave *QualComm* 20 months

1 based on the complexity of the issue in which to come up
2 with an alternative before the injunction would take
3 effect.

4 -In-I'm forgetting which case it is for the
5 moment, but in one of the cases -- oh, I remember. It
6 was *Eye For Eye*, one of the Microsoft cases in the
7 Federal Circuit, the Federal Circuit stayed the
8 injunction pending the appeal, which would be another
9 thing, stayed the injunction pending the appeal, ended up
10 affirming the injunction after the appeal, but the
11 district court from Texas, I think, put in a 60-day
12 sunset provision, and the Federal Circuit extended that
13 to five months because that was a period of time it was
14 going to take in order to come up with an alternative
15 version of the product that didn't infringe.

16 THE COURT: Correct me if I am wrong,
17 Mr. Gutman, but did the Court hear something in this case
18 from one of these many, many experts the parties had in
19 this case about Verizon having the capability to work up
20 some viable alternative within six to nine months, and
21 that was in August?

22 MR. GUTMAN: Well, your Honor, six to nine
23 months, your Honor did hear testimony about six to nine
24 months, and again, in terms of measuring were there to be
25 an injunction, and I get a chill every time I say that,

1 so were there to be an injunction, a sunset provision of
2 nine months to allow an alternative to be devised would,
3 I think, certainly be the minimum that is necessary.

4 THE COURT: Counsel, the Court has been thinking
5 about all of these things here, now. Verizon, from what
6 the Court has been able to ascertain here, just watching
7 the way Verizon operates, is a pretty capable and able
8 corporation, and it occurs to the Court with you-all
9 litigating this case so vigorously over the last months
10 and being in doubt what the end outcome of this
11 litigation was going to be, it's hard for the Court to
12 believe that Verizon, without you saying it, has not or
13 had not begun to look for viable alternatives, depending
14 upon which way the ball bounced --

15 MR. GUTMAN: Right.

16 THE COURT: -- instead of waiting around until
17 you had gotten out of the Court of Appeals, if you get
18 there, to figure out now what we are going to do. So the
19 Court would tend to think that prudent business strategy
20 was to have someone in the laboratory trying to figure
21 out what we are going to do if we lose this thing instead
22 of starting now to think about this.

23 MR. GUTMAN: No question, your Honor. I mean,
24 you are correct.

25 The thing I would point out, though, is the

1 solution to the problem is not a Verizon solution. These
2 are products we get from third-party vendors. But,
3 absolutely, there are conversations underway with the
4 third-party vendor to what could you do to resolve this.

5 And, again, doing it, implementing it, all of
6 that would take time, which is why a sunset provision,
7 again, six to nine months, would certainly be
8 appropriate, whenever the injunction entered. And it
9 wouldn't be easy and it would be expensive, but the fact
10 that this is something that's been under consideration
11 since the jury verdict is -- I mean, your Honor is
12 correct in your assumption. But, again, it still takes
13 time. And that was true in all these other cases.

14 And, again, in the Eye For Eye case, Judge Davis
15 in Texas gave 60 days. The Federal Circuit stayed the
16 injunction pending the appeal. By the time they had gone
17 through the entire appellate process and gotten a
18 decision affirming the injunction it's, I don't know, a
19 year and a half later, whatever, it was a significant
20 period of time, and the Federal Circuit, confirming the
21 injunction, still said that we are going extend the 60
22 days to five months.

23 So I understand your Honor's point, but even in
24 those circumstances the other courts, including the
25 Federal Circuit, have taken steps to make sure that there

1 is adequate time provided to make the change. Again, the
2 idea is the injunction is not supposed to be punitive.

3 THE COURT: The Court understands that.

4 Talk to the Court about this matter of what you
5 believe any subscriber rate should be if the Court were
6 put in the position where it has to deal with this
7 issue. Mr. Johnson has argued it ought to be two
8 twenty-five and etc. What are your views on these
9 matters?

10 MR. GUTMAN: Sure. Your Honor, I don't think
11 that it has become willful because we still believe --
12 and again, no disrespect is intended. I mean, we
13 understand that your Honor has ruled, but we still
14 believe that on some of the grounds that we have asserted
15 we at least have a good-faith basis for believing that
16 the law may be otherwise and that the appellate court
17 will determine that. So under those circumstances, it's
18 not at all clear to me that they would qualify for a
19 willfulness kicker. That's something they could argue
20 when we got there. We don't concede that that's the
21 case.

22 As to what would be an appropriate royalty, I
23 don't have a number. I mean, our damages expert had a
24 number at trial. I don't have the number here now, but
25 let me again suggest something that other courts have

1 done in this circumstance that might be of assistance to
2 the Court here. Were the Court, as we urged, to deny the
3 injunction and your Honor did not want to be in the
4 position of trying to determine later what the
5 appropriate royalty was, one option is then not to
6 address what the appropriate royalty is until after the
7 appeal.

8 I mean, there's \$140 million right now if we are
9 wrong, there is interest if we are wrong, and there is
10 some unknown exposure for the other money if we are wrong
11 on appeal. That, in and of itself, I would think would
12 give the parties plenty of incentive and opportunity to
13 try to work something out while the case is on appeal.

14 If the Court, you know, felt the need to have an
15 interim royalty rate established, rather than not
16 addressing that issue unless we had to after the appeal,
17 that's the kind of thing where the *Pace* decision in the
18 Federal Circuit provides some guidance. The parties were
19 sent out to try and negotiate a royalty and it was a
20 situation where it was basically you guys can come to an
21 agreement or the Court will settle it, and then there
22 would be a presentation as to what was appropriate, and
23 your Honor would make that decision.

24 So there are a lot of options available,
25 including not addressing that issue until we hear from

1 the Court of Appeals, which I, frankly, think is the
2 easiest approach here. Because if it turns out that we
3 are right, or we are partially right, or any of this has
4 to be retried, we haven't spent a lot of time and energy
5 fighting over what the interim royalty rate is if there
6 wouldn't have been one that was appropriate.

7 But those are the options, your Honor, and I'm
8 sorry, I don't have a number now. But, again, it would
9 be perfectly preceded for your Honor to send us out to
10 try and work one out or to come up with submissions to
11 the Court so that we could address that issue in a more
12 thoughtful way than I can do at the moment, and I
13 apologize for that.

14 The last point --

15 THE COURT: Another hearing?

16 MR. GUTMAN: We can do it on the paper. Your
17 Honor, I like coming down.

18 Your Honor may find this surprising, considering
19 the way I last left your courtroom, but I actually enjoy
20 coming back here. Everybody has been friendly and nice,
21 and the weather is much more pleasant now than when we
22 left in the summer, and the food is good, and I do like
23 being here. So we would be happy to come back for
24 another hearing.

25 The last point before I sit down is were the

1 Court to entertain an injunction, we would ask, and we
2 mentioned this in our motion papers -- if your Honor
3 requires a separate motion, please let me know and we
4 will file it today to make sure we are on record, but we
5 would ask that any injunction be stayed pending appeal.
6 I think we made that clear in our papers, but I just want
7 to make that clear. And, again, if we need --

8 THE COURT: I think you did, and that's
9 something the Court wondered about, what the effect, if
10 any, if the whole objective of an injunction is basically
11 to stop the running of the harm, what's the point of
12 staying the injunctive relief as opposed to a sunset
13 provision because you yourself said, you know, these
14 things can get up there in the Court of Appeals and hang
15 around there for a lifetime? I mean, depending on what
16 is happening, you know, so that --

17 MR. GUTMAN: And the standard, your Honor, for
18 the stay is set out in our papers and we argue it in the
19 papers, and basically, you know, if there are serious
20 issues going to the merits, and, again, I think whatever
21 the positions are as to the correctness of the decisions
22 before, I think there are at least serious questions
23 that -- and there would be the hardship to us in having
24 to change the system.

25 THE COURT: I understand that, but if the Court

1 is going to stay an injunction the other thing the Court
2 could do is simply deny the injunction because, in
3 effect, they cancel out each other. It's a waste of time
4 to enter an injunction, and then turn around and stay it.
5 The better course is, of course, to deny the injunction
6 so then you don't have further hearings, scope hearings.
7 I mean, you know, the Court understands clearly what you
8 are arguing here.

9 MR. GUTMAN: Well, denying it is certainly our
10 first choice, your Honor, by a lot. But I think even if
11 the Court were to grant a stay, that issue has then been
12 resolved. Unless the Court of Appeals takes a different
13 view, it doesn't necessarily have to be addressed, but
14 staying it means that if it turns out we were right and
15 that we shouldn't have been enjoined and that having to
16 change our product and do all this stuff was really not
17 appropriate, we can find that out from the Court of
18 Appeals before we have to do it. So that's the effect.
19 But I agree with your Honor --

20 THE COURT: On the other hand, what's the
21 contrary side of that? The contrary side of that is if
22 the Court is right and it stays the injunction, what it
23 did was it permitted the infringing activity to continue
24 for a year, or year and a half, or whatever.

25 MR. GUTMAN: Either party would have the right,

1 your Honor, to go to the Court of Appeals and ask them --

2 THE COURT: You just appeal the stay, right?

3 They could appeal the stay, and you could certainly
4 appeal the denial of the stay. Either way it goes,
5 there's going to be some appeals.

6 MR. GUTMAN: And I can't ask the Court of
7 Appeals for the stay if I haven't first asked your Honor.

8 THE COURT: Oh, I understand. And the beat goes
9 on.

10 MR. GUTMAN: Thank you, your Honor.

11 MR. JOHNSON: Briefly, your Honor.

12 THE COURT: All right.

13 MR. JOHNSON: I promise.

14 The first question you asked him was about
15 whether there was something novel about this, quote,
16 indirect competition, and he said there were no cases.
17 Pages 8 and 9 of our brief, the *BroadCom* case involved
18 the very situation where the Court characterized it as
19 indirect competition.

20 The *CISRO* case at page 9 involved a research
21 company. Some people would say that's a troll who had no
22 business, and an injunction was issued.

23 The Court, I am sure, is well aware of the cases
24 involving *TiVo* and *Dish* which have recently settled. In
25 that case *TiVo* did not have a network. It supplied a

1 recording system, and it got an injunction against *Dish*
2 and *Dish* was ultimately found to be in contempt and found
3 itself in a bit of hot water.

4 But in *Bosch*, as I pointed out, your Honor, in
5 the OEM situation they were not direct competitors. The
6 issue was the technology, and in our case the technology
7 is the delivery of the interactive services and VOD.

8 Counsel has made two other points that I want to
9 address. Number one, he said that the jury didn't find
10 whether or not it was Cisco or it was SeaChange. The
11 proof at trial was that the infringement was identical,
12 so they didn't have to find -- once they found
13 infringement, it applied the legal force to both.

14 He then argued that the '582 didn't involve
15 VOD. That's not true. It does. It involved both
16 because it's a specific delivery system.

17 Now, the final point I would like to make, your
18 Honor, is this. By using our technology we continue to
19 lose customers, we continue to lose market share, and we
20 continue to suffer price erosion.

21 THE COURT: He said there's no proof in the
22 record to any of that.

23 MR. JOHNSON: Well, if that's true, he didn't
24 bother reading Mr. Miller's testimony and he didn't
25 bother reading the declaration of Mr. Schmandt from

1 Cablevision. And I would direct the Court to those
2 declarations, and specifically to paragraph 8 and
3 paragraph 11 of the Cablevision. The Court has it
4 right. If they put Cablevision out of business, they put
5 us out of business.

6 In the ITC they went to great length to say we
7 are going after Cablevision and its supplier, and the
8 supplier was CloudTV. So to argue that, oh, because we
9 are not direct competitors as he claims, that somehow
10 means no injunction can issue, that's just wrong, and
11 *Bosch* says that.

12 And the final point I want to make is this, your
13 Honor, and it's pretty straightforward. We assumed the
14 Court was going to ask us what the appropriate rate
15 should be, and we were prepared to give the Court that
16 rate. There is no way that counsel on that side of the
17 table didn't know that question was coming since they put
18 it straightforwardly in their brief and in the
19 declaration from Dr. Carlton.

20 The fact that they would come in here and tell
21 you they hadn't thought about it and didn't know just is
22 further evidence of what their strategy is, delay, delay,
23 delay. We want to avoid at all costs having to address
24 the issue that that jury found we infringed, and we
25 submit that the facts of this case justify the issuance

1 of an injunction and we think the appropriate remedy
2 should be the one we asked for, two twenty-five.

3 Thank you.

4 MR. GUTMAN: Even more briefly, your Honor, with
5 respect to *Bosch* and the subject of direct competitors,
6 reading from page 13 of the opinion: "In this regard,
7 *Bosch* points to evidence of lost market share and access
8 to customers, *Pylon's* inability to satisfy a judgment
9 and, quote, direct -- well, all of this is a quote,
10 emphasized quote, direct competition between it and *Pylon*
11 in each and every distribution channel in the relevant
12 market." That's what the Court wrote, and the Court
13 later describes that evidence as undisputed. Direct
14 competitor case.

15 Two, *BroadCom* versus *QualComm*, also direct
16 competitors. Both of them chip makers, both of them sold
17 chips to handset makers, etc., etc. There is no question
18 they were direct competitors. They weren't suing a
19 customer. This was not *BroadCom* trying to enjoin
20 *Motorola* or *Samsung* or some other LG for using phones
21 that have infringing *QualComm* chips in them. That's this
22 case. That's the case here.

23 It was the chip maker against the chip maker,
24 direct horizontal competitors. So that's exactly
25 supportive of the point we were making.

1 CSIRO is completely off point. CSIRO was not a
2 competitor of any kind, direct, indirect, etc.

3 Again, in Justice Kennedy's concurring opinion,
4 in eBay, or it may have been in the Court's opinion, I
5 don't recall, there was reference to the fact that there
6 might be exceptions like a research institution. CSIRO
7 is the state research institution of Australia and so
8 they fell within that exception, and the case ended up
9 being reversed on other grounds on the Court of Appeals
10 and I don't believe any court has followed CSIRO since.

11 TiVo, again, I don't recall the details, but I
12 believe there was evidence of direct competition in that
13 case. I stand by what I said about no evidence here. If
14 your Honor looks at the record and looks at what was
15 cited, there is no evidence of loss of direct
16 competition, loss of market share, loss of customers.
17 There's evidence directly to the contrary.

18 And the final point is, you know, again, the ITC
19 stuff has nothing to do with this. If Cablevision ends
20 up out of business, it's because the ITC determined that
21 they broke the law and that that's the appropriate remedy
22 under the ITC. It remains to be seen.

23 The final point, should the Court be in a
24 position of deciding what the royalty is, that decision
25 should be based on actual evidence submitted, probably

1 expert evidence submitted, whether live or by affidavit
2 or declaration or something, not by counsel making an
3 assertion in court, which is all we have heard so far for
4 the two twenty-five, or two thirty, or whatever.

5 THE COURT: Well, you know something. The Court
6 could take care of that right now. I mean, the Court
7 could take care of it right now.

8 Gentlemen, I direct both parties, both parties,
9 to submit within the next ten days an affidavit
10 indicating what it concludes the appropriate royalty rate
11 should be in the event this Court issues an injunction
12 and provides a sunset provision regarding the effective
13 date of the injunction. You can provide by declaration
14 what your viewpoint is.

15 All right?

16 MR. JOHNSON: Thank you, your Honor.

17 THE COURT: Okay. That just means that it buys
18 the Court ten more days, because the Court will take time
19 to consider it. And you-all say it's all a matter of
20 damages anyway, so within the next ten days I want both
21 parties to provide it from -- you say Mr. Miller has
22 addressed certain things already. You give me a
23 declaration from both parties regarding that issue. All
24 right?

25 MR. JOHNSON: Yes, your Honor.

1 THE COURT: And I will be in touch soon
2 thereafter.

3 Thank you for your argument. And I'm not being
4 sarcastic when I say it was informative, and I think it
5 is certainly helpful, even though the Court still has to
6 figure out exactly how it will resolve the issues.

7 All right.

8 MR. STILLMAN: Your Honor, also on your agenda
9 this morning is our motion regarding the '748 patent.

10 THE COURT: Didn't I already rule on that?

11 MR. STILLMAN: No, sir.

12 THE COURT: I thought the Court had already put
13 out an order regarding reconsideration of the '748
14 patent.

15 MR. STILLMAN: Well, your Honor, let me come to
16 the podium. As you may recall, your Honor, this was not
17 a motion for reconsideration. You had ruled on an
18 earlier motion for reconsideration.

19 THE COURT: You-all can have a seat, gentlemen.

20 MR. STILLMAN: This was a motion based upon
21 newly discovered evidence.

22 THE COURT: Okay. I remember now.
23 Mr. Stillman, you are right. You are right. That issue
24 is something that the Court has looked at, and the Court
25 has been in the process of resolving that issue. The

1 Court did not put out an opinion on that. The Court has
2 talked about so many things regarding this case, the
3 Court did not assert an opinion on it.

4 I think the Court can have an opinion
5 forthcoming on it. Is there something else you want to
6 add other than what you have in the briefs?

7 MR. STILLMAN: Well, there are some things I
8 would like to talk about since we have your attention.

9 THE COURT: Let's go right on, because the Court
10 has not issued an opinion on it. The Court has it under
11 consideration and under evaluation on whether there's
12 truly newly discovered evidence.

13 MR. STILLMAN: Yes, sir.

14 THE COURT: The Court has some questions about
15 it. The Court read the memoranda of the parties, but the
16 Court had not come down one way or the other on whether
17 this is truly newly discovered evidence or not, to be
18 candid with you.

19 MR. STILLMAN: Well, that's exactly what I would
20 like to talk with the Court about. And I understand that
21 you feel like you have been around the barn with respect
22 to the '748. You have made your ruling with respect to
23 invalidity, and we were disappointed by that, but we made
24 our motion for reconsideration and you ruled on that.

25 But, as you know, we learned effectively after

1 the trial of this case about the existence of new
2 evidence, and that evidence now clearly creates a triable
3 issue with respect to the priority date that we are
4 entitled to.

5 And, as you know, whether or not the '689
6 patent, which is this web TV patent that the Court
7 believes anticipates the '748 patent, is prior art to the
8 '748 patent requires comparing the filing date of the
9 '689 with the invention date of the '748 patent. We were
10 not able to offer to the Court an earlier invention date
11 simply because by virtue of their own independent
12 recollections, the inventors of the '748 patent did not
13 recall a specific time period that they were engaged in
14 the conception of this custom browser that was designed
15 to translate information from the Internet to a
16 television screen.

17 THE COURT: The problem here, Mr. Stillman, you
18 remember during the trial Verizon cogently raised the
19 question. We looked at the case law as to whether an
20 inventor for the purposes of establishing the invention
21 date could corroborate his own invention date, you know
22 what I mean? And in this evidence that you have
23 submitted, these notes, these notes are notes from the
24 inventor that you are attempting to use to accomplish
25 something that we pretty solidly found you couldn't do.

1 I mean, he used his own, just notes, to attempt to
2 corroborate the invention date.

3 MR. STILLMAN: Well, your Honor, first of all, I
4 don't agree that inventor's notes could not be used as
5 part of the evidence necessary to corroborate their own
6 invention. But the point is, these are not inventor's
7 notes in the first place. These are, in fact,
8 independent invoices that were sent that memorialize the
9 fact that work was, in fact, done.

10 THE COURT: Who sent the invoices?

11 MR. STILLMAN: Well, the inventor sent the
12 invoices.

13 THE COURT: They are the inventor's invoices?

14 MR. STILLMAN: Yes, sir, but they, nonetheless,
15 refresh the recollection in combination with that July 12
16 memorandum that we talked about in our motion about when
17 the work on that custom browser was, in fact, done.

18 We tried to locate those invoices or any
19 information about when that work on the custom browser
20 was done prior to the trial.

21 I'm sorry. Obviously, you have got something on
22 your mind.

23 THE COURT: It's all coming back into clear
24 focus. Go on and finish that.

25 MR. STILLMAN: And so our point simply is that

1 this evidence, this newly discovered evidence, clearly
2 creates a triable issue with respect to whether or not or
3 what the effective priority date for the '748 patent
4 actually is. And we believe, your Honor, that if you go
5 back and you look at that evidence -- not that evidence
6 alone, but that evidence in conjunction with the July
7 memorandum which we laid out in our papers which shows
8 exactly that a prototype was finished in July of 2010,
9 which means the conception date has to occur sometime
10 prior to that. We just didn't know precisely when. When
11 you look at that evidence in combination, it creates a
12 triable issue where a jury could find that we were, in
13 fact, entitled to an earlier priority date.

14 THE COURT: Here's my question. You say it's
15 newly discovered.

16 MR. STILLMAN: Yes, sir.

17 THE COURT: This evidence was something that
18 existed all along. It was within the control of agents
19 of Verizon. It was there, but apparently no effort was
20 made to go search, do a thorough search for the
21 information. Now, the Court found cases on record where,
22 you know, in circumstances even better than these facts
23 the Court has ruled it's not newly discovered evidence.

24 There's a situation where this doctor was
25 allegedly in China, was in China, and apparently came

1 back into the States and never did a thorough search of
2 the place these statements were supposed to be, and they
3 were right where they thought they might be, but no one
4 looked. Now, you know, that's a problem.

5 MR. STILLMAN: Well, let me engage that, if I
6 can, and I understand that argument, but the first thing
7 the Court has to understand is Mr. Wan is not under
8 Verizon's control. He was an independent contractor when
9 this was going on. And this is very important. We
10 didn't control -- Verizon did not control Mr. Wan.
11 Believe me, if it did, we would have required that
12 Mr. Wan come back from China to engage in this search for
13 these documents. We tried at length, and, in fact, the
14 chronology of those efforts is laid out in some
15 considerable detail in our papers.

16 You may recall that we talked to Mr. Wan. He
17 was in China. We actually asked Mr. Wan if it would be
18 possible for us to go to his home and search
19 independently for those documents? Mr. Wan told us
20 categorically that he was not comfortable with that.

21 We then sort of lost communication with
22 Mr. Wan. We found an e-mail address through Mr. Lin
23 where we might communicate with Mr. Wan. We sent Mr. Wan
24 another e-mail. We then subsequently learned that
25 Mr. Wan was back in California.

1 As soon as we found out about that, we called
2 Mr. Wan, and he agreed and we made arrangements for him
3 to go back to Boston to search. He then searched and
4 produced an initial round of invoices. We thought that
5 there were still some holes in that production. We asked
6 him to go back again, and when he came back again, he
7 found confirmation that, in fact, the conception of this
8 custom browser was clearly made before May of 1996.

9 THE COURT: Based on those invoices.

10 MR. STILLMAN: That refreshed his recollection
11 that that's exactly when that happened.

12 We knew, your Honor -- if you go back and you
13 look at that July 12th memorandum which we have discussed
14 in our papers, we knew that the conception had to be
15 before July because a prototype had in fact been
16 completed by July, so sometime prior to that, there had
17 to be conception. The problem is, neither of these
18 inventors were willing to author a declaration until they
19 saw those invoices that would specify with any level of
20 certainty that that conception had to occur before May of
21 1996.

22 When they went back and saw that they had, in
23 fact, billed for it, that refreshed their recollection.
24 And let me just say this, your Honor. This is not sort
25 of inside-the-beltway patent law. This is just common

1 sense. If you asked me when I did something with my
2 people, I probably couldn't tell you three months ago
3 when I exactly did it unless I saw some written evidence
4 about what occurred.

5 In this case when they went back and saw the
6 invoice, it refreshed their recollection. You know, you
7 mentioned this several times, and you are exactly right.
8 I think you have had the opportunity to observe Verizon
9 in its culture and the way that we went about trying this
10 case. To suggest that we didn't exercise due diligence
11 about trying to find this evidence prior to the trial of
12 this case defies all of your experience with the way that
13 we tried this case.

14 I can promise you, and the evidence, I think, is
15 supported in the declarations that were filed, Verizon
16 left no stone unturned to locate this evidence prior to
17 all of this. And you know, as well as I, that had we had
18 it prior to trial, we would have used it. If there was a
19 motion that could have been filed in this case, we would
20 have filed it. And I know we established at least that
21 credibility with you up until this time.

22 So the suggestion somehow that we just sat
23 around and couldn't locate this -- and this is
24 information, your Honor, that was not within our custody
25 and control. It was in the inventor's house, and he was

1 unwilling to have us to search for.

2 The real question here, your Honor, is whether
3 or not, based upon this newly discovered evidence, a jury
4 should be able to look Mr. Wan in the eye and judge the
5 content of his character and say that based upon my
6 recollection now, having reviewed these documents, I
7 believe that I conceived this invention prior to May of
8 1996, which means that the web TV patent is no longer
9 prior art to the '748. That's the question before us, as
10 to whether or not we are entitled to this priority date.

11 And I submit to the Court that if you go back
12 and look at the declarations that were filed, I don't
13 believe that you are going to make the determination,
14 number one, that this evidence was in our custody and
15 control; and number two, I don't believe you are going to
16 find when you look at that declaration that there's
17 anything other than material information that could help
18 a jury make a decision about all of this should be
19 resolved.

20 Now, there are a number of arguments that have
21 been advanced by ActiveVideo in their papers about why
22 you should deny this motion. The first is that the
23 invoices by themselves contain insufficient detail for
24 each and every element of the claim. Well, of course
25 they don't and that's not the law, and I think we have

1 supplied you the requisite authority for you to make that
2 determination.

3 The point simply is that these invoices are
4 corroborative only, corroborative. In other words, they
5 helped refresh the recollection of the inventor as to
6 when something actually took place.

7 The second argument that ActiveVideo made here
8 is that Verizon didn't exercise due diligence. Well,
9 again, I hope you appreciate the culture at Verizon with
10 respect to how it went about trying this case, and the
11 suggestion that we didn't do everything possible to
12 locate this information just simply defies common sense.
13 And, in fact, there's no evidence that we didn't. All
14 the evidence in the declaration shows that we turned
15 every stone to locate these invoices prior to trial.

16 So the real question is whether or not the
17 evidence would allow a jury to find that Mr. Wan and
18 Mr. Lin conceived of this invention prior to May of 1996,
19 and I think we have laid out the chronology.

20 The final argument that ActiveVideo advanced in
21 this case, your Honor, is that the invoices themselves
22 were not created contemporaneously. Once again, that's
23 not the law, and we have cited the *Hybritech* case, a
24 Federal Circuit case, found at 802 F.2d 1367, for the
25 proposition they don't need to be created

1 contemporaneously. But, in fact, these invoices were
2 created virtually contemporaneously with the exception of
3 this custom browser, which Mr. Wan conceived clearly
4 prior to May of 1996.

5 Now, one final point that I want to leave with
6 the Court as you think about this very important motion.
7 There has been a lot of discussion in the papers about
8 Verizon's motives and how this all pertained to the ITC
9 case, and, yes, of course, it does. We plead completely
10 guilty to that.

11 This is a very important patent to Verizon.
12 Now, the Court had made a decision that this patent is
13 invalid by virtue of this web TV patent. Now, I
14 understand that ruling and the Court has made a number of
15 rulings that we haven't been happy about, but you have
16 been consistent in your strike zone. So from our
17 perspective, we simply want the opportunity to convince a
18 trier of fact in this case that the conception of this
19 invention was in fact prior to May of 1996 and that as a
20 result, the '689 patent is not entitled to prior art
21 status.

22 You can sever this issue. You can send the rest
23 of this case on to the Federal Circuit and be done with
24 it by simply allowing us the opportunity to go to trial
25 on this separate case. Nothing will hold up the rest of

1 the case. The Court is entitled to certify the rest of
2 the case and the final judgment. And I think, as a
3 practical matter, we could move forward in an expeditious
4 way to get a resolution one way or the other as to
5 whether or not this patent is valid or not.

6 Thank you.

7 THE COURT: All right.

8 MR. LYONS: Good morning, Your Honor. Mike
9 Lyons on behalf of ActiveVideo.

10 As your Honor appreciates, this is extraordinary
11 relief. They are asking for this Court to basically
12 throw out the judgment that's been entered on this
13 patent. Before they can do that, they have got to show
14 that this evidence is newly discovered. They have got to
15 show that they did exercise diligence in discovering this
16 evidence. And unlike what was suggested repeatedly, the
17 showing isn't that, you know, a jury could have been
18 persuaded. It's got to be a showing that this evidence
19 is likely to produce a new outcome. And I would submit,
20 your Honor, they cannot meet any of these standards.

21 Let's start with the newly discovered standard.
22 First of all, their own papers provide ample evidence to
23 show that this is not newly discovered evidence. What
24 their declaration reflects is that Mr. Wan told them
25 about this evidence in June 2010. So that was 13 months

1 before trial. He said, If I had files and documents
2 relating to my invention, they are in my house in
3 Boston. They are in my files. Now, that was in June
4 2010.

5 A month later Verizon's counsel is representing
6 Mr. Wan. He's their client. They are working hand in
7 glove. Now, at any moment they could have -- and one
8 other part of the story, your Honor, Verizon's counsel is
9 also in communication with Mr. Wan's wife. Why is that
10 important? Because Mr. Wan's wife is in Boston and has
11 custody of documents. At any time they could have
12 subpoenaed her for these documents. They could have done
13 it at any time in 2010, they could have done it any time
14 in 2011, and they chose not to.

15 But what's even more troubling in this case is
16 they not only chose not to get the documents which were a
17 hand's reach away, they didn't tell anybody. This is a
18 patent that was in three litigations. It was being
19 asserted against ActiveVideo, it was being asserted in
20 Texas, and it was being asserted in the ITC. As you can
21 imagine, it was a subject to discovery in all three of
22 these.

23 Now, counsel for Verizon knew there were
24 documents in a home in Boston, and they knew who had
25 those documents, and they knew they were relevant. And

1 who did they tell? Nobody. They didn't tell anybody
2 about these documents.

3 Now, they have tried to lay the blame for
4 everything on Mr. Wan and say, well, you know, he went to
5 China. He was in China, so we couldn't get these
6 documents. So putting aside for the moment the fact that
7 Mr. Wan's wife was here the entire time in custody of the
8 documents, but Mr. Wan was here virtually the entire time
9 that these motions were pending in this case.

10 His testimony in his declaration was that he was
11 here in December of last year. We think in Boston,
12 although he wouldn't tell us and counsel for Verizon,
13 even though they represent him, would not tell the Court
14 candidly if he was in Boston or somewhere else. But then
15 he returned to the U.S. permanently in February.

16 Now, they have said, We lost his e-mail
17 address. We couldn't find him. Well, why didn't they
18 pick up the phone and call his wife? I mean, that's how
19 they found him in the first place. Or why didn't they
20 ask the inventor, his co-inventor, which is who they
21 eventually asked and say that's how they did find him the
22 second time. Even the exercise of the most minimal
23 diligence would have located Mr. Wan and would have
24 allowed them to get these documents.

25 Now, your Honor pointed out, counsel pointed out

1 Verizon has put vast resources into this case and when
2 they wanted to get some information, if there was a stone
3 they wanted to turn over, they turned it over. And the
4 reason this stone didn't get turned over is because they
5 didn't know what was underneath it.

6 They are assuming now that this is helpful
7 evidence. Well, they were going to trial in three courts
8 on this patent, and a lot of times what's in the inventor
9 files is not all that helpful. Maybe there was prior art
10 that should have been disclosed or maybe there was other
11 evidence that was unhelpful in how they were reading
12 these claims. They weren't so interested in this
13 evidence.

14 That's why when we filed the motion for summary
15 judgment back in January, what does a party do when they
16 know about relevant discovery that they don't have?
17 Federal Rule of Civil Procedure 56(d) tells a party it's
18 very simple. When you oppose that motion for summary
19 judgment, you tell the Court there's more information out
20 there that we don't have yet, and you don't have to tell
21 the Court we know exactly when we are going to be able to
22 get it or how we are going to get it, but you put that in
23 the papers. They didn't do that. They effectively
24 argued that this issue is ripe for determination based on
25 ActiveVideo's position that this was prior art and the

1 fact that Verizon never challenged whether it was prior
2 art in the summary judgment motion.

3 Now, they didn't challenge whether it was prior
4 art in their motion for reconsideration. They didn't
5 invoke Rule 56(d) in their motion for reconsideration
6 which was pending before this Court until June 30.

7 They didn't even tell this Court when they
8 finally reconnected with Mr. Wan. And just prior to
9 trial in conversations with him about how to get these
10 documents that had been requested by multiple parties in
11 litigation discovery and hadn't been turned over, they
12 didn't tell the Court.

13 They got the first set of documents from
14 Mr. Wan. They didn't like those documents. They weren't
15 helpful. What did they do? Did they come to court? Did
16 they tell ActiveVideo? No, they didn't tell anybody.
17 They said, Go back to Boston, Mr. Wan, and find us some
18 documents we can work with.

19 He went back. It was only until he came back
20 the second time with something that they thought they
21 could make a motion out of that they decided to tell
22 anybody about what was going on, and we would submit,
23 your Honor, that this is just too late. This is not
24 diligence, this is not newly discovered, and it was not
25 fair conduct.

1 The final issue, your Honor, is whether this
2 evidence is likely to produce a new outcome. So it's not
3 a matter of whether this is some evidence that might have
4 some influence on some juror; it is likely to produce a
5 new outcome.

6 Now, every document that they are relying on is
7 later than the prior art that they say they concede
8 before. The earliest document that they have unearthed
9 is from late June, and they have to show that they
10 actually conceived in May. So they don't have even one
11 document in the relevant time period.

12 Now, the one document in late June is an invoice
13 that does refer to work that went on in May. Now,
14 counsel did, candidly, concede that this invoice doesn't
15 actually show where the elements of the invention are,
16 and he's absolutely right about that. I mean, this is an
17 invoice showing the work that was done, and it was not
18 intended to be a technical discussion of inventions or
19 ideas; it's just not there.

20 And we had focused on some of the specific
21 aspects of what they had argued was really a crux of
22 their invention was this transforming the interactive
23 elements on a web page from something like a hyperlink
24 that was something that you could work with a remote
25 control. They have no evidence that could possibly show

1 that they conceived at that time, and the documents they
2 are relying on don't corroborate the invention.

3 And the standard is not, as counsel for Verizon
4 has suggested, it's enough that these documents refresh
5 your recollection and somehow that's corroboration. No,
6 corroboration means there's an independent evidentiary
7 basis so that you are not relying exclusively on the
8 testimony of the inventor. The reason for the
9 corroboration rule is because they don't want an inventor
10 to be tempted to remember, Oh, boy, if I could just say I
11 invented this in May rather than June, I can get behind
12 this one piece of prior art that's causing all this
13 trouble and so that's what I'm going to put in my
14 declaration.

15 And so they are essentially offering the exact
16 testimony and relying on the exact testimony that the
17 Court said is not enough. We don't want to hear
18 inventors telling a tale about what they did. We want to
19 see independent corroborating evidence of documents. I
20 submit, your Honor, even if this stuff was timely, even
21 if they had been diligent in finding it, there is no way
22 this evidence is going to produce any kind of new result
23 in this case.

24 Thank you, your Honor.

25 THE COURT: I will give you a short rebuttal,

1 Mr. Stillman.

2 MR. STILLMAN: Yes, sir, very short.

3 Your Honor, first of all, with respect to
4 whether or not this evidence would likely produce a
5 different result, I think you can go back and put
6 yourself in a position that had you had access to this
7 evidence a year ago and the declaration from the inventor
8 about these invoices refreshing his recollection that in
9 fact he conceived of this in May of 1996, you would have
10 made the determination that there was a triable issue
11 with respect to the conception date and that a jury or a
12 finder of fact would be required to hear that testimony
13 and to weigh up Mr. Wan's demeanor and character on the
14 stand, to listen to what he said about when that was in
15 fact conceived.

16 And so, would there be a different result?
17 Obviously, nobody can sit here and tell you what a jury
18 would do, but the real question is whether or not they,
19 Verizon, would be entitled to its day in Court had this
20 evidence been available to it at the time. And I promise
21 you had it been available, we would have presented it to
22 you.

23 Now, before you make your judgments about
24 whether I am right or whether Mr. Lyons is right with
25 respect to this due diligence, may I encourage you to go

1 back and look at the declarations that have been
2 submitted in this case by Verizon with respect to the
3 chronology and the detail and sequence of events which
4 led to the discovery of this information.

5 THE COURT: The Court has already read the
6 declarations.

7 MR. STILLMAN: And when you do that, I don't
8 believe that anyone could read that and say that Verizon
9 purposely sat on this or sat back because it was worried
10 about what it was going to discover. We had nothing but
11 upside. Our patent had been held to be invalid six
12 months earlier. We had nothing to gain by sitting on
13 evidence that could somehow corroborate a conception date
14 in May of 1996.

15 Now, Mr. Gutman also reminded me you asked me
16 the question, you admitted the notebooks of the inventors
17 in this case that were offered, in fact, by ActiveVideo.
18 So that evidence did, in fact, come in, and it's exactly
19 the kind of evidence that we are talking about here that
20 would serve to corroborate a conception in May of 1996.

21 So we believe that there has been due diligence,
22 but, frankly, that's your call. I mean, this is a
23 discretion, and I have to admit that. You have to make
24 that judgment. I can sit up here and argue that there's
25 been due diligence all day long, and Mr. Lyons can say

1 no, there hasn't. But in your heart I think you have to
2 believe that Verizon, had it had access to this
3 information, would have presented it to you a long time
4 earlier. And, in fact, if you look at those
5 declarations, you will see that we did everything
6 possible to get access to it at a prior time.

7 And for all of those reasons, your Honor, we
8 believe that the Court should exercise, in fairness, your
9 discretion, because it is your discretion.

10 THE COURT: Let me ask you one question.
11 Mr. Lyons said that the wife -- I don't recall this from
12 the declaration. I don't know whether it was there or
13 not, and the Court did read the declarations of each of
14 Verizon's counsel involved who worked on those issues.

15 Mr. Lyons made the statement that the wife was
16 available and that you did not approach the wife in an
17 effort to get in the house to find the documents.

18 MR. STILLMAN: Right.

19 THE COURT: I can't remember anything in the
20 declarations about efforts to approach the spouse.

21 MR. STILLMAN: Well, there were conversations
22 with the wife, and the wife told us, as I recall, and I
23 believe this is set out in the declarations, the wife
24 told us that her husband was in China.

25 Now, did we subpoena the wife? No, we didn't.

1 And, you know, hindsight being 20-20, maybe that would
2 have been a good thing to do. I don't know. The fact of
3 the matter is these were documents that were in the
4 custody and control of the husband, not the wife. And,
5 you know, I suppose somebody can always second-guess what
6 we could have done to do something better, and I would be
7 happy to be criticized, but --

8 THE COURT: The Court understands the argument
9 the documents belong to the husband. What the Court does
10 wonder is in terms of having problems trying to contact
11 Mr. Wan, if the spouse is available, why didn't you get
12 some telephone numbers or contact numbers from the
13 spouse?

14 MR. STILLMAN: Well, we did. In fact, I think
15 if you read the declaration, you will find that we did
16 track him down in China and did have access to him in
17 China. And that's when there were conversations about
18 whether he would allow us to go to the house and search
19 for the documents ourselves, and he told us when he was
20 in China that he was comfortable with doing that.

21 Then there was a period of time in which we sort
22 of lost communications with him, and we got an e-mail
23 that we thought was a good e-mail address for him from
24 Mr. Lin and then discovered that he was, in fact, in
25 California.

1 So all of that, the due diligence and the
2 chronology and sequence of events, is really not in
3 dispute. It's all set out in the declaration. The real
4 question is whether when you look at that and you
5 exercise your discretion, what do you think is fair?

6 THE COURT: Got you.

7 MR. STILLMAN: I put our motion, then, in your
8 hands because it's ultimately up to you to decide.

9 THE COURT: Well, I thank you.

10 MR. STILLMAN: Thank you.

11 THE COURT: The Court will consider it along
12 with the injunction and other issues that we have here.

13 Thank you, gentlemen. The Court will be in
14 touch.

15 (This hearing concluded at 12:10 p.m.)

16 * * *

17 CERTIFICATION

18 I certify that the foregoing is a correct
19 transcript of the record of proceedings in the
20 above-entitled matter.

21

22 X _____ /s/ _____ X

23 Sharon B. Borden, RMR, FCRR

24 X October 28, 2011 X

25 Date